

# MONTHLY FINANCIAL REPORT

## June 2009

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**  
**MONTHLY FINANCIAL REPORT - June 2009**

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## **CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY**

For the six-months ended June 30, 2009

### **OPERATIONS: (pages 1, 5, 6, and 7)**

- ♦ Operating Revenues for June were \$17.2M, \$0.2M higher than budget.
  - The variance was primarily due to a higher estimated Grid Management Charge (GMC), partially offset by lower other revenues during the month.
- ♦ Operating Revenues for the year to date were \$95.9M, \$1.6M higher than budget.
  - The variance is primarily due to higher GMC revenues during the second quarter of the year as a result of higher market usage forward energy volumes due to higher participation in the day ahead market. Effective April 2009, the GMC is calculated under the new California ISO (ISO) Market tariff.
- ♦ Operation and maintenance (O&M) expenses for June were \$12.9M, \$0.6M higher than budget.
  - The variance was primarily due to timing of payments during the month and to the severance cost of organizational realignment that occurred during the month.
- ♦ O&M expenses for the year to date were \$78.3M, \$0.3M higher than budget.
  - The variance was primarily due to higher expenses as a result of higher overtime expenses and to the severance cost of organizational realignment that occurred in June 2009. The Company is actively monitoring the impact of these costs on the budget for the remainder of the year.
- ♦ There were 572 full-time employees compared to the 575 full-time employees budgeted (excluding the vacancy factor of 4%).

### **INTEREST COSTS and INTEREST INCOME: (page 1)**

- ♦ Bond and other interest expenses, as compared to budget, were much lower due to the recognition of interest expense on certain amounts due from market participants as a result of a Federal Energy Regulatory Commission (FERC) ruling that was issued in May 2009. The Company recognized \$12.7 million as a reduction of interest expense with a corresponding adjustment to the estimated generator noncompliance fines refund liability.
- ♦ Interest income for the year to date is \$2.1M, \$0.7M higher than budget. Interest income includes earnings on restricted funds not included in the budget. The excluded funds are capital project and debt service funds and generator fines due to be refunded for which the interest approximated \$1.0M.
- ♦ Gains on investments increased during the period as a result of the recovery of bond prices in the financial sector. The Company typically holds investments to maturity and reflects realized gains and losses for GMC rate purposes.

### **BALANCE SHEET: (page 2)**

- ♦ The changes in the accounts are mainly due to normal business activity during the month, except to changes in the generator noncompliance fines, as explained above.

### **CAPITAL PROJECTS: (pages 3 and 7)**

- ♦ 2009 capital projects were budgeted for the year at \$38.5M and include \$9.4M for enhancements to the new ISO Market system. 2009 capital projects approved through June totaled \$13.5M.
- ♦ Actual expenditures to date for 2009-approved capital projects totaled \$9.6M. Expenditures for 2008-approved capital projects totaled \$16.8M.

# **CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY**

For the six-months ended June 30, 2009

## ***The ISO Markets***

### **MARKET CHARGES: (page 8 and 9 )**

- ♦ The total costs managed by the ISO include GMC, Reliability Must Run charges, Ancillary Services Capacity, Real Time Energy and Transmission.

### **OBLIGATIONS OF MARKET PARTICIPANTS: (pages 10 and 11 )**

- ♦ Outstanding obligations of market participants decreased during the winter months, reflecting the seasonal low energy usage during the period. While credit monitoring required increased vigilance for the past several months as a consequence of the ongoing financial crisis, no market losses are anticipated related to such periods.
- ♦ The increase in market obligations during the second quarter reflects the addition of the forward markets under the new ISO Market.

# CALIFORNIA ISO

## Statement of Operations

For the six-months ended June 30, 2009

(dollars in thousands)

	Month				Year to Date				2009
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
<b>Revenues:</b>									
Grid Management Charge	\$ 17,135	\$ 16,669	\$ 466	3%	\$ 94,156	\$ 92,654	\$ 1,502	2%	\$ 192,944
Fines, WSCC & Other Fees	53	284	(231)	-81%	1,783	1,702	81	5%	3,404
Total revenues	17,188	16,953	235	1%	95,939	94,356	1,583	2%	196,348
<b>Operating Expenses:</b>									
Salaries and Benefits	7,601	7,748	(147)	-2%	53,992	50,529	3,463	7%	101,039
Building, Leases and Facility	804	835	(31)	-4%	4,403	5,009	(606)	-12%	9,551
Insurance	(150)	1	(151)	0%	168	187	(19)	*	2,014
Third Party Vendor Contracts	1,497	1,119	378	34%	8,704	6,713	1,991	30%	13,427
Consulting and Contracting Services	1,861	1,438	423	29%	7,219	8,701	(1,482)	-17%	17,062
Legal and Audit	493	511	(18)	-4%	1,442	3,008	(1,566)	-52%	6,421
Training, Travel and Professional Dues	531	490	41	8%	1,118	2,488	(1,370)	-55%	4,685
Other	296	202	94	47%	1,223	1,341	(118)	-9%	2,546
Total operating expenses	12,933	12,344	589	5%	78,269	77,976	293	0%	156,745
Net operating income (loss)	4,255	4,609	(354)	-8%	17,670	16,380	1,290	8%	39,603
<b>Interest and Other Expenses</b>									
Interest income & other	296	228	68	30%	2,062	1,368	694	51%	2,736
Interest expense	(11,601)	700	(12,301)	-1757%	(7,807)	4,199	(12,006)	-286%	8,399
Gains and losses on investments (realized and unrealized)	911	-	911	*	2,177	-	2,177	*	-
Depreciation and amortization	1,092	1,092	-	0%	6,765	6,765	-	0%	13,800
Total interest and other expenses	(9,894)	1,564	(11,458)	-733%	(927)	9,596	(10,523)	-110%	19,463
Excess (Deficiency) of Revenues Over Expenses	\$ 14,149	\$ 3,045	\$ 11,104	365%	\$ 18,597	\$ 6,784	\$ 11,813	174%	\$ 20,140
<b>Number of Full-time Employees (Note 1)</b>	572	575	(3)	-1%					575

**CALIFORNIA ISO****Balance Sheet**

As of June 30, 2009

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
<b>ASSETS</b>			
NET ELECTRIC UTILITY PLANT	<u>\$ 275,748</u>	<u>\$ 264,689</u>	<u>\$ 11,059</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	9,179	7,229	1,950
Restricted Cash and Cash Equivalents	48,907	51,965	(3,058)
Other Special Deposits	20,478	20,479	(1)
Accounts Receivable, net	59,146	56,395	2,751
Investments	146,823	150,678	(3,855)
Accrued Interest	1,032	823	209
Prepayments	9,272	8,535	737
Total Current Assets	<u>294,837</u>	<u>296,104</u>	<u>(1,267)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized Debt Expenses and Other	5,074	4,965	109
Total Noncurrent Asset and Deferred Charges	<u>5,074</u>	<u>4,965</u>	<u>109</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 575,659</u></u>	<u><u>\$ 565,758</u></u>	<u><u>\$ 9,901</u></u>
<b>CAPITALIZATION AND LIABILITIES</b>			
CAPITALIZATION			
Stakeholders' Surplus	\$ 260,942	\$ 246,793	\$ 14,149
Long-term Debt	<u>133,031</u>	<u>133,249</u>	<u>(218)</u>
TOTAL CAPITALIZATION	<u>393,973</u>	<u>380,042</u>	<u>13,931</u>
CURRENT LIABILITIES			
Long-term Debt Due Within One Year	39,100	39,100	-
Accounts Payable	26,587	19,445	7,142
Customer Deposits & Other	69,454	68,475	979
Fines Subject to Refund	45,529	57,680	(12,151)
Total Current Liabilities	<u>180,670</u>	<u>184,700</u>	<u>(4,030)</u>
NONCURRENT LIABILITY AND DEFERRED CREDITS			
Other	1,016	1,016	-
Total Noncurrent Liability and Deferred Credits	<u>1,016</u>	<u>1,016</u>	<u>-</u>
TOTAL LIABILITIES	<u>181,686</u>	<u>185,716</u>	<u>(4,030)</u>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<u><u>\$ 575,659</u></u>	<u><u>\$ 565,758</u></u>	<u><u>\$ 9,901</u></u>

**CALIFORNIA ISO**  
**Capital Projects Report**

For the six-months ended June 30, 2009  
*(dollars in thousands)*

	<b>Approved Projects</b>				
	Month	YTD	2009	Projected	Original
	<u>Actual</u>	<u>Actual</u>	<u>Approved</u>	<u>Costs for</u>	<u>2009</u>
			<u>Projects</u>	<u>Approved</u>	<u>Budget</u>
				<u>Projects</u>	
Compliance/Regulatory	\$ -	\$ 23	\$ 261	\$ 261	\$ 11,437
Essential / Corporate Infrastructure	4,832	5,656	8,793	8,793	10,134
Strategic Initiatives	41	75	375	375	6,846
Future Market Enhancements	134	176	615	615	6,584
Market Redesign	64	2,904	2,847	2,847	2,847
Technology Upgrade	-	731	657	657	657
<b>Total 2009 Capital Spending</b>	<b>5,071</b>	<b>9,565</b>	<b>13,548</b>	<b>13,548</b>	<b>38,504</b>
2008 Capital Projects	7,390	16,824	17,198		
<b>Total Capital</b>	<b>\$ 12,461</b>	<b>\$ 26,389</b>	<b>\$ 30,746</b>	<b>\$ 13,548</b>	<b>\$ 38,504</b>

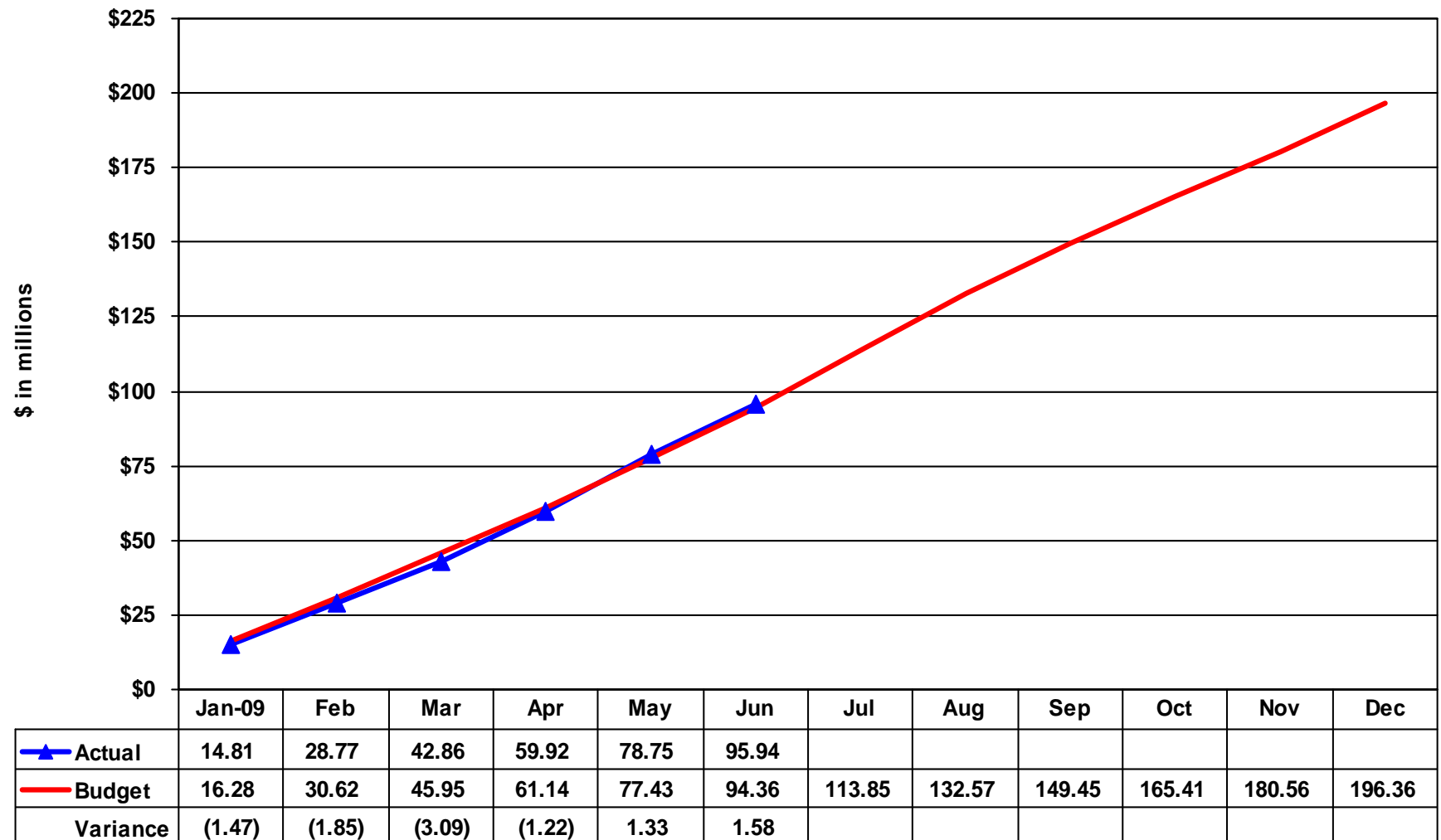
*Notes:*

*Prior year capital projects are funded by prior year rate collections.*

*The Iron Point Project Phase 2 is to be funded from 2008 bond proceeds until permanent facility financing is obtained, which is planned for 2009.*

# Cumulative Operating Revenues

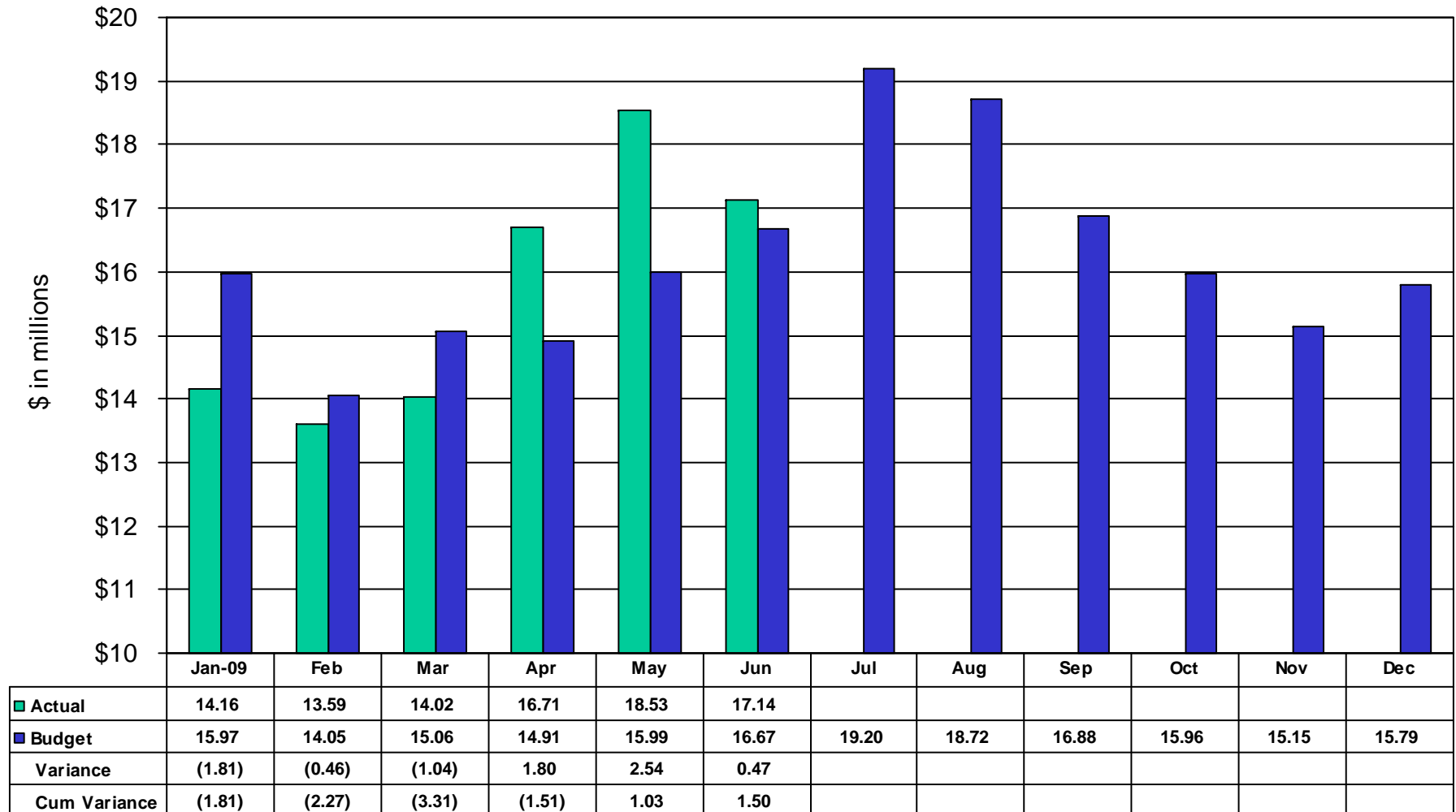
Revenues = GMC, LGIP, WSCC Security & Other Fees



***May and June revenues are estimates.***

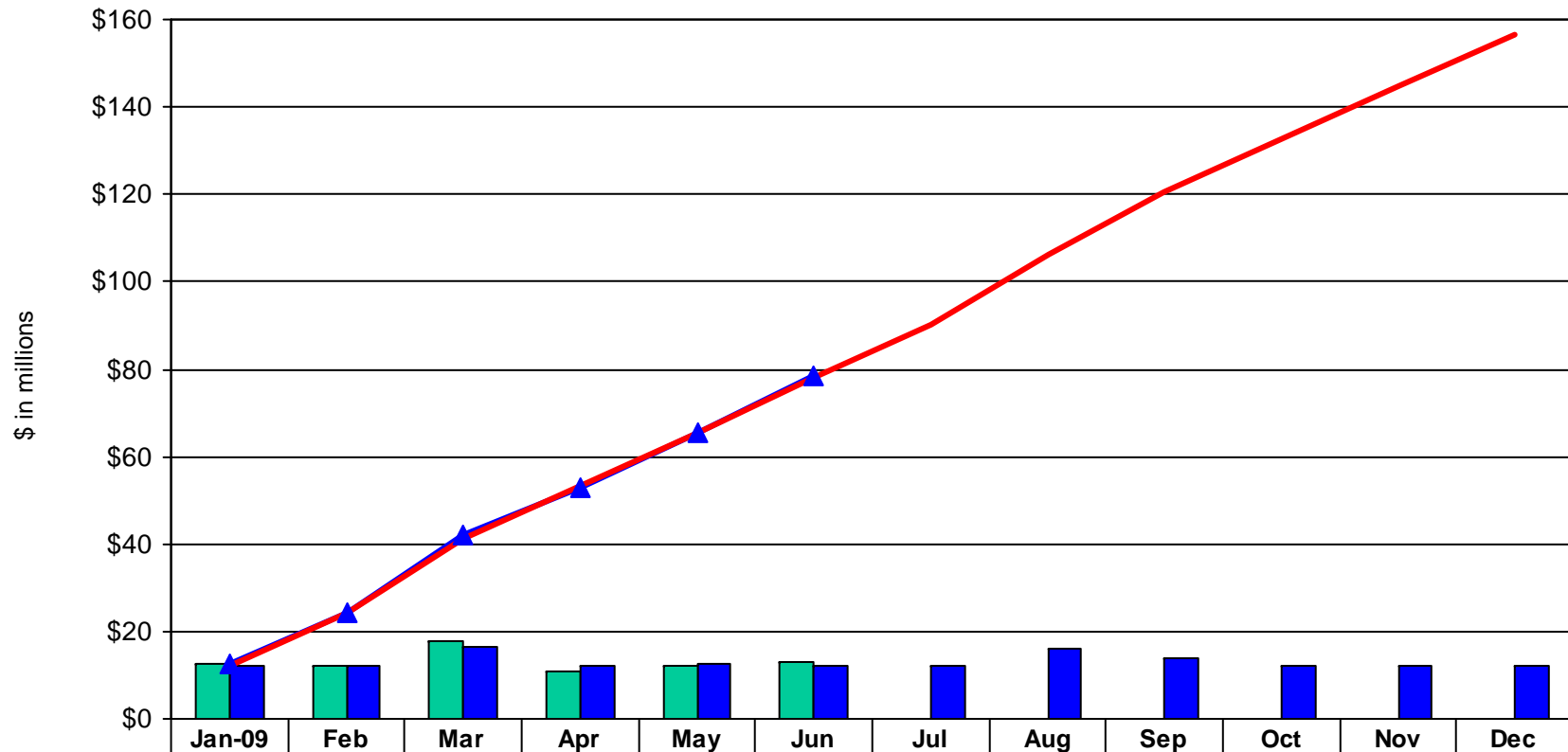


## Monthly GMC Revenues



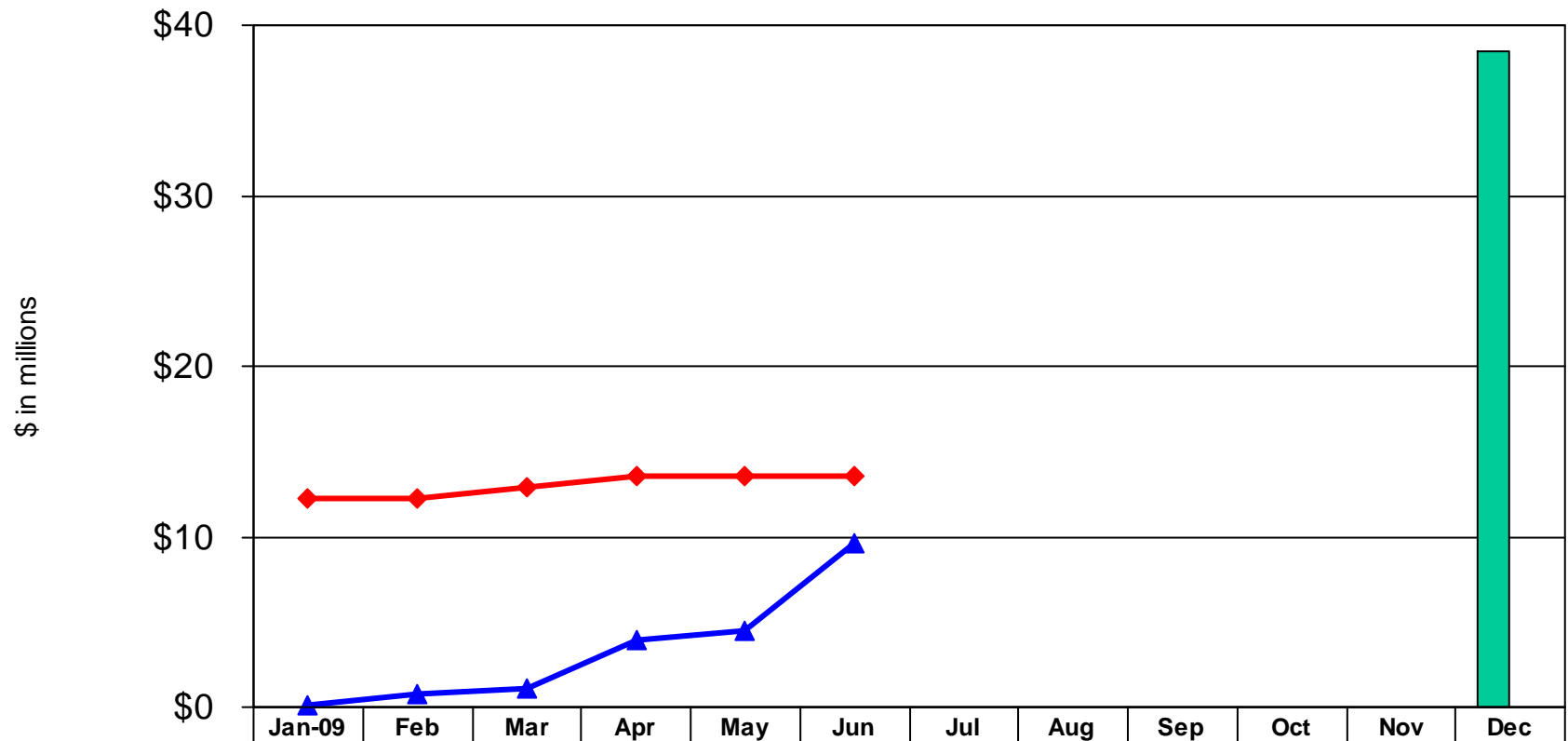
***May and June revenues are estimates.***

## Operating and Maintenance Expenses (O&M)



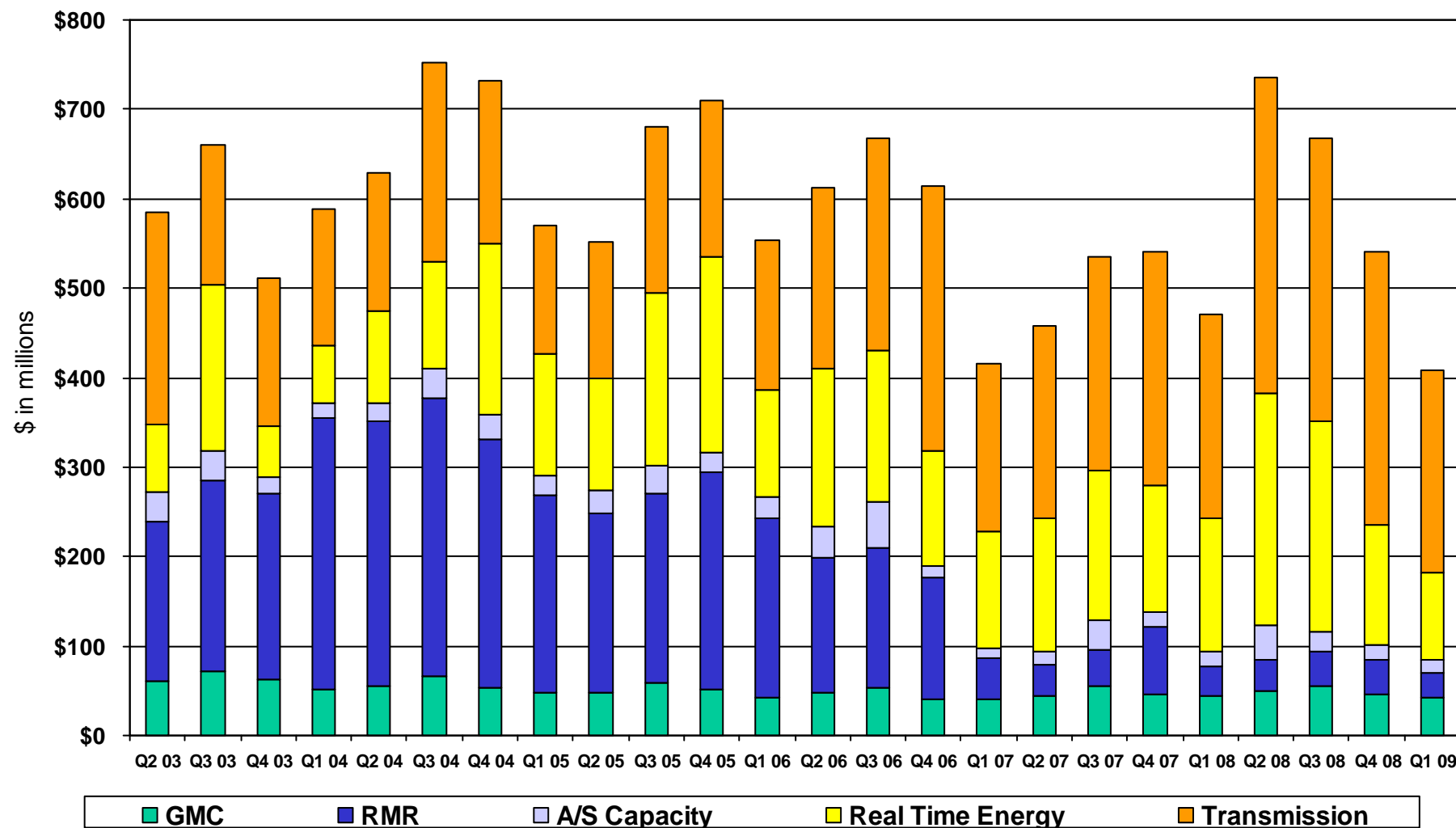
	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	12.47	11.94	17.76	10.89	12.28	12.93						
Monthly Budget	12.30	12.17	16.53	12.25	12.39	12.34	12.09	16.21	14.09	12.16	12.10	12.12
Cum Actual	12.47	24.41	42.17	53.06	65.34	78.27						
Cum Budget	12.30	24.47	41.00	53.25	65.64	77.98	90.06	106.27	120.36	132.52	144.62	156.74
Cum Variance	(0.17)	0.06	(1.17)	0.19	0.30	(0.29)						

## Cumulative Capital Expenditures

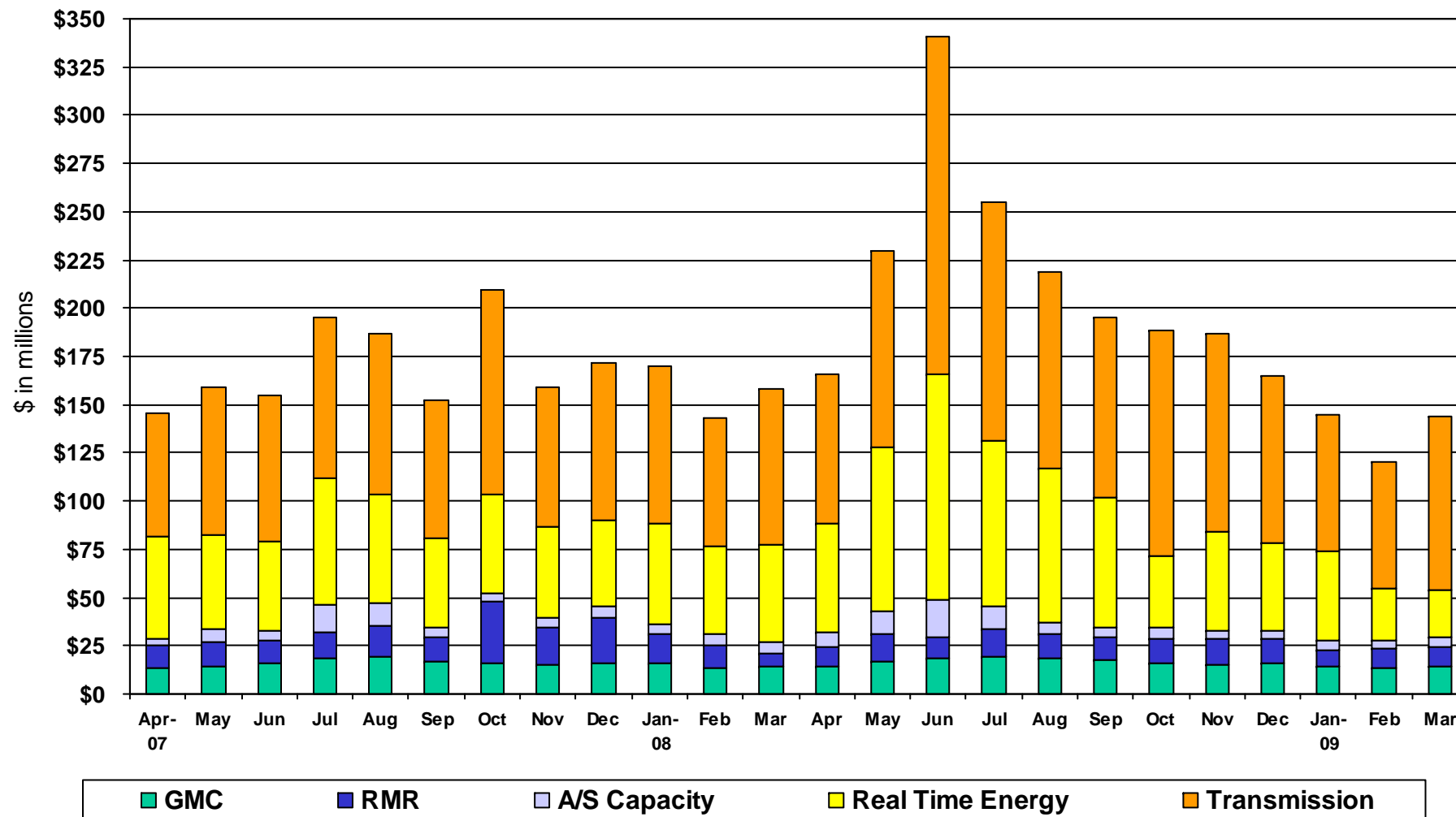


## CAISO Market Costs By Quarter

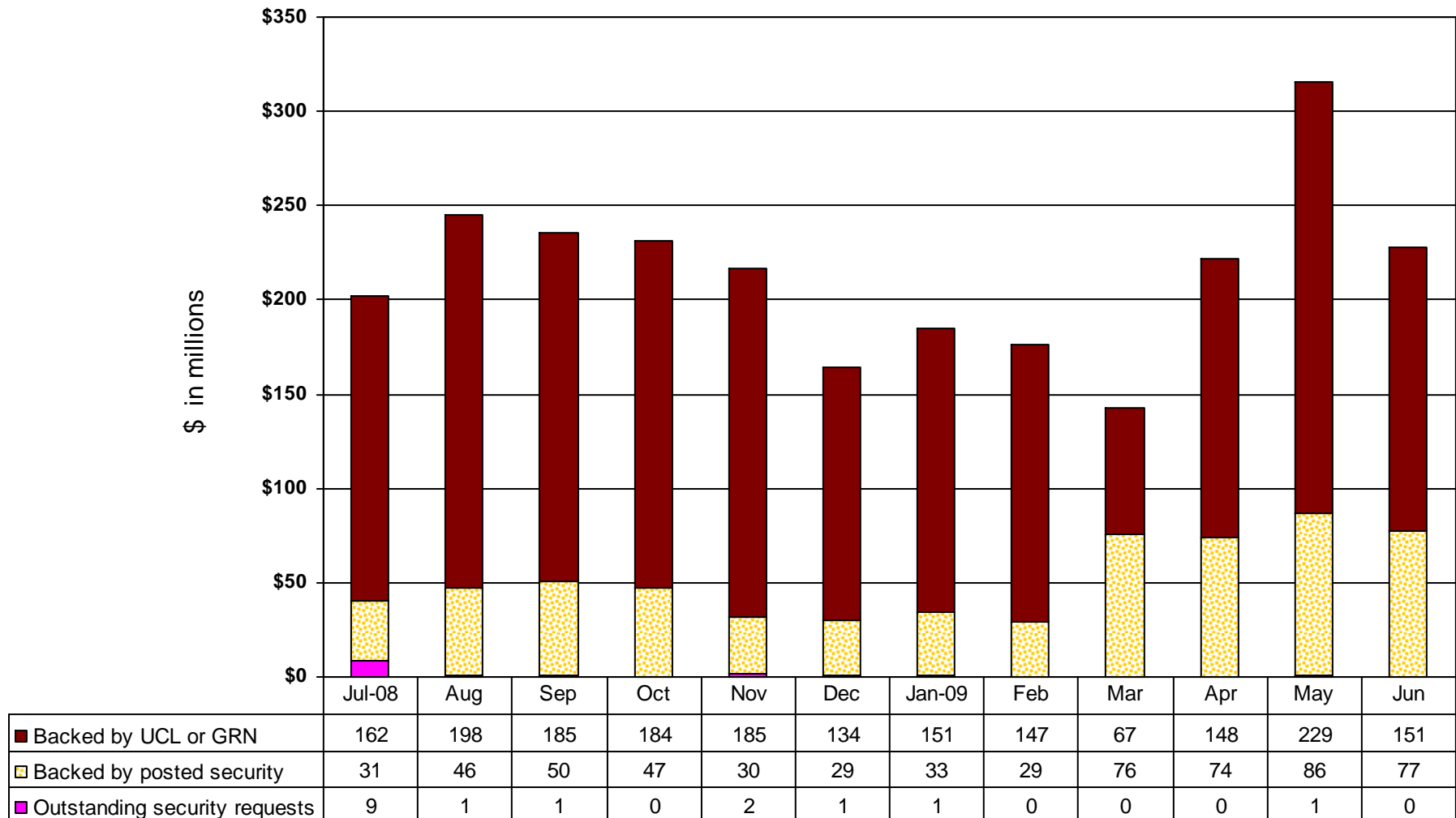
### 2nd Quarter 2003 through 1st Quarter 2009



## CAISO Market Costs By Month April 2007 through March 2009



## Outstanding Obligations of Market Participants



Outstanding obligations are estimated using available historical settlements data. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN). Posted security includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO.

## Backing for Estimated Aggregate Liability (EAL) by Credit Quality

